

ISLAMIC BANKING & FINANCE

PRINCIPLES, INSTRUMENTS & OPERATIONS

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Hanifah Haydar Ali Tajuddin*



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CHAPTER 6 GESSEL'S CONCEPT OF FREE-MONEY ELIMINATING INTEREST THROUGH INFORMATION-MONEY

by Edo Omercevic* & Ahamed Kameel Mydin Meera**

6.1 Introduction

Choosing the right monetary system and the kind of money to be used within that system is of immense importance. After all, the concept of *riba* that is very much abhorred in Islam has a lot to do with money and monetary systems which have laid down the foundation for the exchange, distribution and investment process in the economy and also influenced the savings and consumption functions. Therefore, choosing the wrong money or monetary system might jeopardise the attainment of the *maqasid al-Shari'ah*, i.e. the objectives of Islamic jurisprudence and thereby may bring about negative consequences on Muslim societies. The existence of interest rates or its equivalent in the Muslim world despite its strong prohibition in Islam, the abuse of seigniorage of fiat money, the inequitable distribution of income, inequitable taxation through inflation and many more potential negative impacts of a faulty monetary system could be mentioned. Besides the fact that fiat money has successfully replaced gold and silver as the currency in the Muslim world, the current and most evident problem of the existing monetary establishment is the existence of interest rates in the market and the merger of the profit rates charged by Islamic financial institutions with interest rates, that make them similar to interest rates themselves, i.e. what is normally referred to as the convergence between Islamic and conventional banking. Yet, despite being

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